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Government
Publications

Dominion-Provincial Conference 1941

SUBMISSION
by
GOVERNMENT OF NOVA SCOTIA



HALIFAX, N. S.
PROVINCIAL SECRETARY
KING'S PRINTER
1942

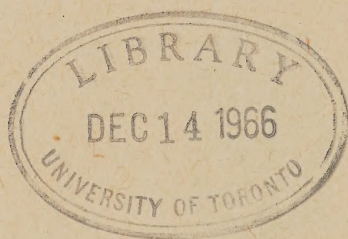


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REPRESENTATIONS BY THE PROVINCE OF NOVA
SCOTIA RESPECTING ADDITIONAL SUBSIDIES
AS RECOMMENDED
BY THE
DUNCAN AND WHITE COMMISSIONS

In the budget speech of the Finance Minister of the Dominion Government the Honourable Mr. Ilsley, delivered on the 29th April, A. D. 1941, it was proposed "that the Dominion will offer to pay each year for the duration of the war, to any province which, together with its municipalities, will temporarily vacate the personal income tax and corporation tax fields either

(a) The revenues which the province and its municipalities actually obtained from these sources during the fiscal year ending nearest to December 31, 1940 or

(b) The cost of the net debt service actually paid by the province during the fiscal year ending nearest to December 31, 1940 (not including contributions to sinking funds), less the revenue obtained from succession duties during that period.

Such payments will be augmented by appropriate fiscal-need subsidies where it can be shown that these are necessary. At the same time, it is proposed to discontinue the present special grants which are voted annually by parliament."

It is understood that under such plan it is intended to include in the term "special grants", not only those amounts which are advanced to meet an emergency and have no permanency (real special grants), but also amounts which have been paid by way of additional subsidies, and are permanent in nature. Thus it is apparently intended to withhold from the province of Nova Scotia as a special grant, the amount of \$1,300,000.00 received by it from the Dominion Government, under the Duncan and White Commissions as **Additional Annual Subsidy**.

The contention of the province of Nova Scotia is, that this additional annual subsidy, being of a permanent nature, paid to the Government of Nova Scotia to be disbursed as it sees fit and not destined for any particular

purpose, nor subject to any supervision or accounting to the Dominion, cannot be considered as a special grant, but is essentially an addition to the subsidy of the province, and as such, cannot be withheld from the province by the Dominion as a special grant.

It is asserted that this contention is borne out by the recommendations of the Duncan and the White Commissions, and the statements of Ministers of the Dominion Government, as to the nature of such recommendations and the implementation thereof by the Dominion.

Duncan Commission

The Duncan Commission was appointed by the Dominion Government, as a result of the efforts of the province of Nova Scotia in co-operation with the provinces of New Brunswick and Prince Edward Island, to obtain a better economic position for the Maritime provinces within the Dominion.

Under Letters Patent dated the 7th April, 1926 a Commission of three was set up under the Chairmanship of Sir Andrew Rae Duncan, for the purpose of enquiring into and examining the conditions and claims of the people of the Maritime Provinces, and to make as a result of such enquiry and examination such specific recommendations, as in its opinion, would result in affording relief from the conditions complained of. These are general terms of the purposes set out in the Letters Patent which, however, are amplified by reference to P. C. 505, recommending such appointment on the basis of a report thereon by the Prime Minister.

The Duncan Commission treated the Claims of the Maritimes under seven different groups as follows:

1. Money Grants to Provinces.
2. Transportation and Freight Rates.
3. Port Development and Export Trade.
4. Trade Policy—Forest Produce, Fisheries, Coal and Steel.
5. Agriculture and Migration.
6. New Brunswick Railways.

7. General

For purposes of this representation only the first of these is considered.

After considering the payment made to Nova Scotia by way of subsidy, and after expressing the opinion that Nova Scotia was unfortunate in the terms accorded the claims presented to the Dominion Government from time to time the Commission states, "the Maritime Provinces have satisfied us that they have a genuine claim to a readjustment of the financial arrangements that exist between the Dominion and themselves....."

"The terms of readjustment are obviously a matter for detailed determination and assessment, so that the actual amount can be recognized by the rest of Canada as fair and equitable. It is not possible, therefore, to make a final recommendation as to the increase and form of Dominion aid which is required to satisfy the just claims of the Maritime situation, but we recommend that the Dominion Government should give immediate consideration to the whole of this subject, with a view to a complete revision of the financial arrangements as between them and the Maritime Provinces."

The Commission went on to state that in view of the inability to determine the exact amount at that time, it would be necessary to provide for interim additional amounts, so that the Province would during the period that might elapse after the making of these recommendations and the final determination, be in a position to carry on its essential services, and accordingly, "We recommend that immediate interim lump-sum **increases** should be made in the payments to the three Maritime Provinces as follows:

Nova Scotia	\$875,000
New Brunswick	600,000
Prince Edward Island	125,000"

While the Commission was unable to recommend that any revision should provide for a fixed sum in respect to the retroactive element it did prefer "to take the retrospective feature into account in naming a minimum."

It should be noted that this recommendation involved an addition to the annual subsidy, and was not in the nature of a special grant.

During the Parliamentary Session of 1927 the Prime Minister in speaking of these additional subsidies stated, that while the Government was prepared to give immediate consideration to a revision or readjustment of the financial arrangements between the Dominion and the Provinces, he was of the opinion, that it would be better to refer this recommendation to the Dominion-Provincial Conference which was to be held later on in that year, so that all the other Provinces would realize the difficulties under which these Provinces were labouring. (Hansard 1926-27, pp. 1336 and 2338).

Later in 1927 the Dominion-Provincial Conference was convened at which the recommendations of the Duncan Commission, among other things, were discussed. The general concensus was that a prosperous Dominion could only be effected by the creation of prosperous Provinces; while there was almost unanimity of opinion in favour of implementing the recommendation of the Duncan Report the suggestion was made by Premier Ferguson, that it might be well to appoint an independent Commission of financial and business experts to go into the whole question of provincial demands. (Dominion-Provincial Conference 1927, pp. 19-26; Inter-provincial Conference, 1926).

For the years following the establishment of this grant up to and including the year 1934 the following item with respect to the Duncan recommendations was passed by the House of Commons:

“Amount required to provide for grants to be made to the provinces of Nova Scotia \$875,000, New Brunswick \$600,000, Prince Edward Island \$125,000 pending consideration of provincial subsidies.”

That is, the Dominion Government for those years was carrying out the recommendations of the Duncan Commission that payment of specified amounts should be made until the Dominion had finally determined what

amount was needed as an additional subsidy in order to provide the proper readjustment of financial conditions between the Dominion and the Provinces.

The following references and recommendations respecting the determination of these additional subsidies were made during the years 1927-1934.

In the year 1927 the Dominion Government in its implementation of the recommendations of the Duncan Commission made the following grants:

Nova Scotia \$875,000.00.

New Brunswick \$600,000.00

Prince Edward Island \$125,000.00

In dealing with these recommendations for interim additions to the annual subsidies, the Prime Minister (Mr. King) as above stated, said that the Government was prepared to give immediate consideration to a revision or readjustment of financial arrangements between the Dominion and the provinces. But, in order to gain recognition by the rest of Canada, of the necessity and fairness of such action, it should be a subject for consideration at a Conference between the Dominion and the provinces to be held later in the year. At such a Conference the Dominion **could express its own views thereon, as well as on a detailed determination and assessment of the special claims** of the Maritimes and every province would have an equal opportunity of stating its position with respect to the recommendations of the Commission. (Incidentally, at the Conference held in November of that year, Mr. Robb, Minister of Finance stated, that in the Conference the Maritimes had not been bashful in presenting their claims, and he just wondered if the great spirit which had prevailed at Confederation, now prevailed. There were two classes in the Conference, those who asked for **a revision and increase of subsidies** and those who asked for nothing. The Government would consider the former and accede to the latter. The situation was complicated, as there was a demand for increased subsidies and other services, and also for decreased expenditure.) (Hansard 1927, p. 1331)

The Prime Minister stated further, that the final revision could only be made in accordance with the merits of the case rather than on the findings by the Duncan Commission of "minimum additions."

The Government was "prepared without prejudice to the amount to be arrived at as a final solution to recommend to Parliament, at the present Session, the making of special grants to Nova Scotia, New Brunswick and Prince Edward Island of \$875,000, \$600,000 and \$125,000 respectively; these amounts being the sums recommended by the Royal Commission as immediate **lump-sum payments.**"

It should be noted that what the Royal Commission recommended was "**lump-sum increases.**" (Hansard 1927, pp. 1331)

It is submitted that this term "special grants" was used to denote the amounts which, under the recommendations of the Duncan Commission, were to be paid for that year and pending the determination of the final amount of the revision of the financial arrangements or subsidies and, in that sense, might possibly be described as special. The recommendations of the Commission in this respect are clear and do not permit of an interpretation which would support a contention that the findings therein, were to be considered temporary or special.

In the year 1928, when the item providing for the payment of these amounts was before the House, the Prime Minister was asked when a reconsideration of these grants to the several provinces might be expected. He replied that it was the intention of the Government to give the matter consideration during the Parliamentary recess, and it was hoped that some Report would be made next Session. (Hansard 1928, pp. 4102).

In the year 1929 the question of payment of these additional subsidies was again raised. The answer was, that the Government could not make any promise as to when a final settlement could be expected, but that the matter was under consideration. (Hansard 1929, pp. 3607).

In 1931 the Prime Minister (Mr. Bennett) stated these amounts "are a continuance of the sum which was

paid immediately after the Report was made, and which was accepted not as fulfilment, but as payment pending what might be called the Accounting between the Dominion and the provinces. the payment is being continued for the purpose of enabling the provinces to enjoy the immediate recommendation of the Commission."

"Mr. King: May I point out, that these sums are in addition to the subsidies that have already been granted! They are associated with the subsidies, and to that extent are in accordance with the point of view that I have been trying to impress on the Honourable Members opposite—that moneys going to the different provinces should go as subsidies, and not as grants in aid for special purposes." (Hansard 1931, p. 3335).

Again in 1933 the following statements were made on a question relative to these sums.

"Mr. Rhodes—A. These are the subsidies which have been voted since the Duncan Report.

"Q. Are there other subsidies paid to the provinces?

"Mr. Rhodes—A. Oh, yes, there are other statutory subsidies." (Hansard 1933, p. 4205).

It is now necessary to return to the year 1930. On the 21st day of January of that year Mr. Dunning wrote Mr. Rhodes, then Premier of Nova Scotia, as well as the Premiers of the other Maritime Provinces, stating that in pursuance of the recommendation of the Royal Commission on Maritime Claims, the Board of Audit have been instructed by the Treasury Board to continue the investigations recommended by Section 6 of the Report.

The Minutes of the Treasury Board, dated the 20th day of January, 1930, after reciting Section 6 of the Duncan Report and Section 4 of the Board of Audit Act, recommended that the Board of Audit be instructed to conduct an investigation and to advise as to an equitable reassessment, and to report to the Minister of Finance with such observations as it considered might be of material assistance to the Government of Canada in its endeavour to meet the recommendations (Section 6) of the Royal Commission on Maritime Claims.

On the 25th of January 1930, Mr. Rhodes replied to Mr. Dunning's letter, stating that while the Province would co-operate with the Board, it must be understood that the examination to be made could do nothing more than place the position of the provinces finances "clearly before you" and that their examination "can have no bearing upon the larger question", for example, the **findings of the Duncan Commission that the Maritimes have a genuine claim to a readjustment of the financial arrangements between the Dominion and themselves.**

In its Report dated the 8th October, 1930, the Audit Board stated that it was somewhat handicapped by the early impression of Nova Scotia and New Brunswick, that it was to be the final arbitrator in the matter. At a meeting with the premiers of two of the three Maritime provinces, it was proposed that an "ideal" budget for each province projected for the next ten years, be submitted to them. The only one received up to the date of the Report was from Prince Edward Island. The objection from Nova Scotia was, that such action would tend to produce a finality to the matters which the province opposed.

The Board did not consider that it was in a position at that time to advise finally as to an **equitable reassessment of the subsidies** of the three Maritime provinces.

The situation then, at the end of 1933 was, that the Duncan Commission had recommended a readjustment of the financial arrangements between the Dominion and the Maritime provinces, that is, of their subsidies, with the provision for payment of an interim lump-sum increases pending immediate consideration by the Dominion of the whole of this subject; this recommendation had received the support of a Dominion-Provincial Conference held subsequent to the making of the Report and directly placed before the Conference so that, in accordance with the opinion of the Prime Minister, the rest of Canada might be given the opportunity to recognize the necessity and fairness of the findings.

The attitude of responsible Dominion Ministers, as revealed by their statements in Parliament was, that the recommendations of the Duncan Commission required a

readjustment of the financial arrangements between the Dominion and the provinces, that is, not a special grant to aid the provinces to carry out their functions but a revision or readjustment of the basic financial arrangements as they then existed as subsidies paid to the provinces by the Dominion. This is especially evidenced by the remarks of the Prime Minister (Mr. Bennett) when speaking on motion for payment of the interim increases in 1931, when he stated these amounts were being paid pending "the accounting between the Dominion and the provinces." The Prime Minister was followed by Mr. King, who stated these amounts "should go as subsidies and not as grants in aid for special purposes." In 1933 Mr. Rhodes said these amounts were "subsidies which have been voted since the Duncan Report."

The Audit Board to whom this matter had been referred had reported its inability to advise finally on a **reassessment of the subsidies** of the Maritime provinces. Nova Scotia also considered these amounts as a readjustment of its financial arrangements with the Dominion, as was stated in Mr. Rhodes letter to the Audit Board above quoted.

It is submitted that from the making of the Duncan Report until 1934, that what had been sought by the provinces and granted by the Duncan Commission, was a readjustment of the basic financial arrangements as evidenced by the subsidies paid, and that during this period all authorities or bodies upon whom the responsibility for considering and dealing with the recommendations of the Duncan Commission lay, were all of the one opinion that this was a **question of subsidies** and that the question of **special grants** was not under consideration.

The White Commission

Up to the beginning of the year 1933 the Dominion Government had made no move, other than having a reference made to the Audit Board as above noted, to carry out the recommendation of the Duncan Commission, "that the Dominion Government should give immediate consideration to the whole of this subject, with a view to a complete revision of the financial arrangements as between

them and the Maritime Provinces.” Motions for the production of papers dealing with the Duncan Commission were made from time to time in the Legislature of Nova Scotia.

In January 1933, following the Inter-provincial Conference, this matter was discussed with the Right Honourable Mr. Bennett, by the Premier of New Brunswick the Honourable Mr. Richards, the Premier of Prince Edward Island the Honourable Mr. Stewart and also the Honourable Mr. MacMillan of the Government of that province, and the Acting Premier of Nova Scotia the Honourable Mr. Black. These gentlemen requested that a Commission be set up, to take into consideration and deal with the recommendation of the Duncan Commission that there be a revision of the financial arrangements between the Dominion and the Maritime Provinces.

On the 16th January, 1934, the Premiers of the three Maritime Provinces the Honourable Mr. Tilley, the Honourable Mr. MacMillan and the Honourable Mr. Macdonald, being then in Ottawa wrote to the Prime Minister the Honourable Mr. Bennett, calling attention to the request of the previous year and stating that they were “unanimously of the opinion that this Commission should be set up forthwith.” Such letter was as follows:

(Copy)

Ottawa, 16th January, 1934.

Rt. Hon. R. B. Bennett, P. C.,
Prime Minister,
Ottawa, Ont.

Dear Prime Minister:

The undersigned Premiers of the three Maritime Provinces respectfully request that a commission be now set up to take under consideration and deal with the recommendation of the Duncan Commission that there be a revision of the financial arrangements between the Dominion Government and the Maritime Provinces.

You will recall that this matter was discussed with you after the last Inter-provincial Conference in January,

1933, by the then Premier of New Brunswick, Hon. Mr. Richards, the late Hon. Mr. Stewart, Premier of Prince Edward Island, Hon. P. C. Black, Acting Premier of Nova Scotia, and Hon. Dr. MacMillan, of the Prince Edward Island government, at which time it was understood that a commission would be set up.

We are unanimously of the opinion that this commission should be set up forthwith.

Yours very truly,

L. P. D. Tilley,
Premier of New Brunswick

Angus L. Macdonald,
Premier of Nova Scotia.

W. J. P. MacMillan,
Premier of Prince Edward Island.

On the 2nd March, 1934 when the interim lump-sum increases recommended by the Duncan Commission were being considered by Parliament, the Prime Minister, Honourable Mr. Bennett, was asked if any arrangement had been agreed upon by the provincial premiers who met the Prime Minister some time ago with regard to increasing the subsidies? The amounts being considered were provisional subsidies made under the terms of the Duncan Report and "this question" has been outstanding for some time.

The Prime Minister replied that during the recent visit of the premiers of the provinces of Nova Scotia, New Brunswick and Prince Edward Island they had suggested that a Commission be appointed for the purpose of dealing with what were alleged to be the unfulfilled recommendations of the Duncan Report, and the Government had concluded that the proper course to follow was to hear representatives of each of the provinces before a Committee of the whole Cabinet. He stated the premiers of the three provinces had been advised "that we will hear the representatives" of each before the Committee of the whole Cabinet, as to the points they desire to make

concerning these representations in the Duncan Report to which effect had not been given. "We hope that through this opportunity of making representations the premiers.....will be in a position to make known to the Cabinet the exact points that in their judgment still remain to be dealt with in order that **the Duncan Report may be fully implemented.**" He stated that work had been done by officials from time to time in collecting information as to the extent to which the financial assistance granted to the Maritime provinces places them on an equality with the other provinces. (Hansard 1934, p.1151).

On the 10th March, 1934, the Prime Minister wrote the Honourable Mr. Macdonald, as well as the premiers of New Brunswick and Prince Edward Island setting forth the request for a Commission for revision of the financial arrangements. He advised that the Federal Government had concluded that, in view of the fact that there was some difference of opinion as to the extent to which the Duncan recommendations had been implemented, it appeared desirable that a Committee of the whole Cabinet should hear the views of Mr. Macdonald, as well as those of the other Maritime premiers, not only upon the financial arrangements between the Federal and Provincial Governments but also as to the extent to which effect had been given to the recommendations of the Commission and **what remained to be done to comply with such recommendations.**

The response from the three Maritime premiers, was an acceptance of the Prime Minister's proposal and that, subject to the approval of the Prime Minister and his Cabinet, they would endeavour to fix a date on which such representations might be made. (Letters 16th, 19th and 26th March, 1934).

It was, of course, recognized that any such hearing could not take place until after the end of the Parliamentary Session of 1934. Different dates were suggested and finally August 1st, 1934, was fixed as the date when the Committee of the Cabinet would meet the representatives of the Maritimes.

This meeting was in session on the 1st and 2nd of August, 1934 when an agreement was reached whereby a

Commission of Inquiry into the Readjustment of the financial arrangements between the Maritime Provinces and the Dominion of Canada and of further implementation of the Duncan Report was to be set up. On the same day the Premiers of the three Maritime Provinces joined in the following letter to the Prime Minister:

(Copy)

Ottawa, Ontario,

August 2nd, 1934.

To The Right Honourable R. B. Bennett, P.C., K.C.
Prime Minister,
Ottawa, Ontario.

Sir:

On behalf of our respective governments, the undersigned respectfully recommend as a member of the Commission of Inquiry into the Readjustment of Financial Arrangements between the Maritime Provinces and the Dominion of Canada and the Further Implementation of the Report of the Royal Commission on Maritime Claims, the Honourable John A. Mathieson, Chief Justice of the Supreme Court of Prince Edward Island, and request that permission be given under the provisions of The Judges' Act of the Dominion of Canada, for him to act.

It is our understanding that another member of the proposed Commission will be appointed by the Dominion Government and that the two appointees thus selected will then choose a third member of the Commission.

We would respectfully request that this Commission be appointed at as early a date as possible.

We have the honour to be, Sir,

Your obedient servants,

(Sgd.) ANGUS L. MACDONALD,
Premier of Nova Scotia

(Sgd.) LEONARD P. D. TILLEY,
Premier of New Brunswick

(Sgd.) WILLIAM J. P. MACMILLAN,
Premier of Prince Edward Island

As a result of these deliberations a Report dated the 13th September, 1934, was made to the Committee of the Privy Council at Ottawa by the Acting Prime Minister, Sir George H. Perley, for the Minister of Finance, setting forth the appointment of the Duncan Commission, that its Report containing certain recommendations with regard to the readjustment of the financial arrangements between the Government of the Dominion and the Governments of the three Maritime Provinces had been made, and the letter of the 16th January, 1934, from the Premiers of the Maritime Provinces, requesting the appointment of such a Commission. The Minister recommended that a Commission be created under Part I of the Inquiries Act, Chapter 99 of the Revised Statutes of Canada, 1927, such Commission to have the special authority specified under Part III of the said Act, and to be composed of The Right Honourable Sir Thomas White, the Honourable John A. Mathieson and Edward W. Nesbitt, the first named to be Chairman. Letters Patent appointing such Commission were issued on the 14th September, 1934, under which the Commission was authorized to take into consideration and deal with the recommendation of the Duncan Commission, "that there be a revision of the financial arrangements between the Dominion Government and the Maritime Provinces."

It should be noted that the letter to the Right Honourable Mr. Bennett of the 16th January, 1934, the Report of the Right Honourable Sir George H. Perley to the Privy Council, and the Letters Patent all contemplated a **revision of the financial arrangements** between the Dominion Government and the Maritime Provinces: these financial arrangements **can only refer to the financial arrangements entered into at the time of Confederation as altered from time to time** and being grants paid yearly to the several provinces for the support of their Governments and Legislatures and interest on debt allowances. (Duncan Report pp. 11-17).

Following the establishment of this Commission, briefs were filed with it by the Maritime Provinces and on behalf of the Dominion Government.

The brief on behalf of the Dominion Government directed its argument, other than the scope and general

submission, to whether or not the **subsidies** of the Maritime Provinces should be increased. In its summary the last paragraph, No. 7, states:

“The Dominion therefore submits that the **subsidies now granted** to the Maritime Provinces should be reduced or in any event should not be increased. As the **subsidies** recommended by the Duncan Report are interim or temporary only, such reduction is feasible and appropriate.”

It is submitted that the Dominion Government in limiting, through its counsel, its argument to a consideration of subsidies thereby recognized that the question under consideration was that of a revision of subsidies, and by so doing cannot now contend that the amounts allowed by the White Commission are special grants and not revisions of subsidies. This contention is strengthened by the fact that the White Commission did not accept the arguments advanced on behalf of the Dominion but, on the contrary, found that the Maritime Provinces were entitled to an addition to **their subsidies**.

The Report of the White Commission was made in February 1935, and is divided into the following heads:

1. Terms of Reference.
2. Conclusions of the Duncan Commission.
3. Scope of the Present Commission.
4. Classification of Present Payments.
5. Payments for the Support of the Provincial Governments and Legislatures and in Aid.
Fiscal need. Argument Based on Population Wealth and Taxable Capacity
Comparison of Costs of Government Impracticable Finances of the Maritime Provincial Governments.
6. Public Debt Allowance.
7. Public Lands.
8. Special Claim of Prince Edward Island.
9. Railway Construction in the West.

10. The General Claims of the Maritime Provinces.

11. Recommendations for Revision.

The Commission in its Recommendations for Revision states:

"As an assessment in detail of each of the claims presented before us is, for the reasons given, manifestly impracticable, we adopt the only course available to us, viz., to consider equitably the claims in the aggregate assigning to each its due weight according to our best judgment and making our recommendation in the form of **special additional annual subsidies** to the Maritime Provinces respectively as a final equitable settlement of the claims brought before us for adjudication. These **additional annual subsidies** so recommended are to be in substitution for the **interim annual subsidies recommended** by the Duncan Commission. They should commence in the fiscal year 1935-6 and the interim annual subsidies recommended by the Duncan Commission should cease at the end of the fiscal year 1934-5.

"The **additional annual subsidies** which we recommend are as follows:

To Nova Scotia	\$1,300,000
To New Brunswick	900,000
To Prince Edward Island	275,000.

"We agree with the Duncan Commission that it is preferable to make our recommendations in the **form of annual subsidy payments** only and not in the form partly of subsidy payments and partly of a fixed sum in respect of the retrospective feature of the claims. We have, however, like the Duncan Commission, taken this retrospective feature into account in making our recommendations and also the fact that the **increased subsidies** which we have recommended are to begin in the fiscal year 1935-6 and not as of the fiscal year following the date of the Duncan Report.

"In our opinion the payment heretofore made by the Dominion of the **interim subsidies** recommended by the Duncan Commission and the payment for the future of the **annual subsidies** which we now recommend

in their stead constitute a fair, just and equitable settlement of the claims of the Maritime Provinces for revision of their financial arrangements with the Dominion. "These **annual subsidies** which we have recommended and which, as stated above, are to take the place of the **interim annual subsidies** recommended by the Duncan Commission, represent, on a five per cent per annum interest basis, capitalized sums as follows:

Nova Scotia	\$26,000,000
New Brunswick	\$18,000,000
Prince Edward Island	5,500,000"

The Commission stated that it had endeavoured, in reaching its conclusions, not to be influenced by conditions in the Maritime Provinces due to the world depression in which all provinces have shared, nor by a comparison of grants made for relief purposes by the Dominion to the several provinces, because such conditions were common to all, and in some present more acute problems for temporary assistance than in others. The Commission dealt with the claims presented to it, on the evidence of specific facts pertinent to the subject-matter of its inquiry and of long continuing conditions peculiar to the Maritime Provinces, and not common to the other members of Confederation.

It is submitted that the extracts from the Report of the White Commission above quoted, are a complete answer to the argument advanced by the Dominion through its counsel, and are such as cannot be considered otherwise than an increase or addition to subsidies. Further, that the Dominion having submitted its case to its own Commission in which its sole argument, other than that on headings, Numbers 1, 3, 7 and 9 set forth above, rested on the contention, that the Maritime Provinces were not entitled to any increase in subsidies but rather a decrease, cannot, in the face of the findings of its Commission, now raise the contention that the amounts recommended therein are not increases or additions to the subsidies, but are special grants, and as such are to be included in the special grants proposed to be discontinued as set forth in the Budget Speech of the Honourable Mr. Ilsley, of 29th April, 1941.

Following the receipt by the Dominion Government of the Report of the White Commission on the Financial Arrangements between the Dominion and the Maritime Provinces, the Dominion Government through the Acting Prime Minister, Sir George H. Perley, advised the House of Commons that it was the intention of the Government after adjournment, to take steps to **implement** the findings of the Commission either by Bill or by an item in the Estimates. (Hansard 1935, pp. 2822)

In accordance therewith, the Maritime Provinces have received yearly the amounts recommended by the White Commission as additional annual subsidies from the Dominion Government. (Hansard 1938, pp. 4410)

In contrast to these additional annual subsidies paid to the Maritime Provinces, are certain special grants to some of the provinces, paid by the Dominion at different times since the White Commission recommendations were implemented. The provinces of Manitoba and Saskatchewan in 1937-38 received special grants of \$750,000 and \$1,500,000 respectively. The province of Saskatchewan in the year 1938 and 1939 received an additional special grant of \$2,000,000; its financial condition being such that the Dominion Government felt it necessary to provide this additional amount. (Hansard 1938, pp. 4410, 1919-1920; 1939 pp. 3437)

The province of British Columbia has received a payment of \$750,000 yearly since, and including the year 1935. This amount was granted by the Bennett Administration in order that this province might have some equality with grants made to the Western Prairie Provinces, and as some compensation until the financial arrangement with the province could be investigated.

The grants to the provinces of Manitoba and Saskatchewan were such as would be classed as special grants under the definition of special grants as put forward in the brief of the Dominion Government before the White Commission.

There was no finality to the grant made to the province of British Columbia such as was expressed in the recommendations of the White Commission for additional annual subsidies to the Maritime provinces.

Total payments to the Maritimes to 1940 as additional annual subsidies are:

Nova Scotia	\$13,500,000
New Brunswick	9,300,000
Prince Edward Island	2,375,000

These total payments may be broken down as follows:

N.S.

1927 to 1934 both inclusive, at \$875,000 (8 yrs.)	\$ 7,000,000
1935 to March 31, 1940 " " 1,300,000 (5 yrs.)	6,500,000
	<hr/> \$13,500,000

P.E.I.

1927 to 1934 both inclusive, at \$125,000 (8 yrs.)	\$ 1,000,000
1935 to March 31, 1940 " " 275,000 (5 yrs.)	1,375,000
	<hr/> \$ 2,375,000

N.B.

1927 to 1934 both inclusive, at \$600,000 (8 yrs.)	\$ 4,800,000
1935 to March 31, 1940 " " 900,000 (5 yrs.)	4,500,000
	<hr/> \$ 9,300,000

Summary:

1. The Duncan Commission appointed in 1926 to investigate the claims of the Maritime provinces recommended a **readjustment** of the existing **financial arrangements** between the Dominion Government and the three Maritime provinces and, pending a final determination of the exact amount which might be found due, the payment of interim lump-sum increases to the amounts then being paid to the Maritimes by the Dominion.

2. The Duncan Commission recommendation for this readjustment received the approval of the Dominion-Provincial Conference held in November, 1927.

3. The Audit Board appointed to advise on an equitable reassessment of the financial arrangements between the Dominion and the Maritimes reported that

it was unable at that time to advise finally on an equitable **reassessment** of the **subsidies** of the Maritime provinces.

4. The Dominion Government during the years 1927 to 1934 continued to pay the amounts recommended by the Duncan Commission to the Maritimes. Such sums so paid were—not in fulfilment but as payments pending what might be called **an accounting** between the Dominion and the provinces. (Rt. Hon. Mr. Bennett)—the amounts should go as subsidies and not as grants in aid. (Rt. Hon. Mr. King)—subsidies which have been paid since the Duncan Report. (Hon. Mr. Rhodes).

5. The White Commission was appointed in 1934 to deal with the recommendation of the Duncan Commission that there be a revision of the financial arrangements between the Dominion Government and the Maritime provinces. The Commission recommended additional annual subsidies as a final equitable settlement of the claims brought before it for adjudication.

6. The brief filed by Counsel for the Dominion Government made its principal argument against an addition to the **subsidy**.

7. While the province of Nova Scotia did not accept certain obiter dicta in the report of the Commission it did accept the principle that there should be an increase in the subsidy payable by the Dominion to the province.

8. The brief filed on behalf of the Dominion Government with the White Commission made the following distinctions between conditional subsidies or grants in aid for specific purposes, and general subsidies:

“The general subsidies are of a permanent nature, are paid to the provincial governments to be disbursed as they think fit, are not destined for any particular purpose and are not subject to any supervision by or accounting to the Dominion. Conditional subsidies or grants in aid to provincial governments, on the other hand, have been made either as emergency measures resulting from crises of national importance, such as emergency unemployment or farm relief, or to enable the performance of certain specific functions which are deemed to be of national importance, for example, old age pensions, certain highway

construction and aids to technical and agricultural education. They are not permanent in their nature, they cannot be spent by the recipient provinces as the latter deem fit, they are often conditional upon expenditures by the provinces themselves and are subject to appropriate supervision and accounting."

9. The Dominion Government accepted the recommendation of the White Commission that the Maritime Provinces should receive additional annual subsidies from the Dominion Government as is evidenced, not only by subsequently paying the amounts recommended, but also by the declaration of the Acting Prime Minister given before the House of Commons. (Hansard 1935, pp. 2822).

It is suggested that the only course which could rightfully have been taken, would have been to enact **statutory authority** for payment of these additional annual subsidies.

The province of Nova Scotia therefore submits that the amounts recommended by the Duncan Commission and the White Commission to be paid to the province were, and are, as stated by the respective Commissions, additions to the annual subsidy received by the province from the Dominion and were so considered by the Dominion Government.

The province asserts that such amounts, being part of its subsidy, are not special grants and consequently cannot be included among the special grants to be discontinued as proposed by the Honourable Mr. Ilsley in the Budget Speech of the 29th April, 1941.

The province contends that legislative sanction should be given to the payment of this additional annual subsidy by the Dominion Government in order to fully implement the recommendations of the White Commission.

The contention made on behalf of the Dominion Government that these annual payments of \$1,300,000, as evidenced by the form in which the vote was made, were of the nature of a special grant is not in accordance with the understanding of the Province. From the years 1927 to 1935, both inclusive, the amounts paid were made "pending consideration of provincial subsidies." Such

a statement may have had some application during the years following the recommendations of the Duncan Commission until the matter was finally determined by the White Commission, as the amounts recommended by the Duncan Commission were interim "lump-sum increases" to be paid until such time as a final determination might be made. But when this determination was made by the White Commission and accepted by the Dominion Government such a proviso should have been deleted from the vote and, in fact, was deleted in the years 1936 and 1937.

For the years 1938 to 1940 both inclusive these payments were, with advances to Manitoba and Saskatchewan and British Columbia of a special nature, grouped together as special grants.

This, it is submitted was an incorrect procedure and was merely a grouping of certain payments without any thought as to different origins and purposes for which the respective amounts were granted, otherwise the unreasonableness of so doing would have resulted in a separate classification of the respective grants. Not only are the Maritime payments on an entirely different base from those of Manitoba and Saskatchewan, but the grant to British Columbia was made for purposes pertinent only to that province.

In any event the Government of the province of Nova Scotia asserts that it had no knowledge or notice from the Dominion that the grant following the White Commission was to be treated as a special grant, and if it had been aware of any such purpose would have strongly protested against any such policy.

The Government of this province has always considered that the amounts payable under both Commissions were additions to its subsidy, as is clearly shown by the following statements of the Honourable A. L. Macdonald in his Budget Speech of 1935, while he was premier and provincial treasurer of this province.

He stated that the brief and findings of the Jones Commission (a provincially appointed economic body) were of great assistance in presenting the case for this province to the White Commission, and "that Commission

(White) has found that Nova Scotia is entitled to an additional subsidy of \$425,000."

In speaking of the time which had elapsed since the Duncan Report and the final determination as suggested therein he stated, "Beginning on April 1st, 1935, we hope to receive an additional \$425,000 in subsidy."

Again, "I was able to secure from a Commission appointed by the present Federal Government an increase in subsidy of \$425,000 for this province".

Again in speaking of various results obtained by the Government as of that date: "It has pressed the claims of Nova Scotia for an increased grant from the Dominion and has secured an additional sum of \$425,000 per year."

It is submitted that these statements by the Honourable Mr. Macdonald definitely established that this province had pressed for a rearrangement of its financial arrangements with the Dominion as evidenced by subsidy payments and had succeeded in having its subsidy increased by the amount set forth in the White Commission. Consequently, any subsequent action by the Dominion in altering what had been done, by a denial that these payments were increases to the subsidy or re-classifying them as special grants cannot in equity, be raised to deprive the province of the additional subsidy given and received as such.

Halifax, N. S.,

27th August, 1941.

December 3rd, 1941.

Dear Mr. Ilsley:

With reference to your letter of November 1st and the revised draft of the proposed agreement which you have submitted for the consideration of the Government of Nova Scotia, I now enclose the memorandum of the Government with comments and suggested alterations to this agreement.

These suggestions are made with the reservation that we regard the adoption of certain fundamental principles as essential to the signing of any agreement. The memorandum deals with certain changes in expression which we believe would conform more closely to the meaning that is intended to be conveyed.

Our comments upon the agreement are necessarily limited from the fact that we have not received a copy of the proposed agreements with the other provinces. On the other hand, while forwarding this criticism of the agreement the Government of this Province reaffirms the statement already made, that the annual subsidy of \$1,300,000 granted under the terms of the White Commission should not be treated as a special grant to be withheld or suspended but that the Province should continue to receive this subsidy as it has for some years past.

The Province should then be able to elect either Option A or Option B but would under such circumstances agree to elect Option A, when it would be on a parity with the western provinces, whose rearranged subsidy was confirmed by parliamentary statute and continues with them. This would be a much simpler method than the present complex computation set forth in Option B.

We believe that the license fees as enumerated in Appendix B should not be disturbed and that the agreement should not seek to place a ceiling thereon, provided that the fee paid in 1940 in respect of these statutes is not exceeded. The fees are legal fees and are within the rights of the Province to impose, have been paid by the several corporations heretofore and therefore are not interfering with any profits of the corporations which would be subject to the income or excess profits tax.

The agreement as drafted to that extent interferes with certain jurisdictional rights of the Province that we understood, when at Ottawa, would not be subjected to change.

The Government feels very strongly and wished to lay emphasis on the fact that because Nova Scotia obtained its revenues from other than income sources its position is now being prejudiced as compared with that of other provinces. For instance, our gasoline tax is ten cents in Nova Scotia, while elsewhere throughout Canada it is, on the average, eight cents.

A difference of two cents per gallon on the taxable gasoline sold amounts to \$600,000. This is an additional tax on the people of Nova Scotia which is not paid by other provinces.

In order to keep our services up to par we would have had to collect income tax long ere this if we had not resorted to a higher gasoline tax, and if we had collected the above amount in income tax we would under the proposed agreement be receiving it back and would still have additional gasoline tax as a potential field.

As the several Commissions dealing with our financial position have stated, we have exploited to the full and perhaps in larger measure than some of the other provinces, various forms of taxation. But the personal income tax field was left as an emergency for future use, particularly in connection with the increasing demands upon our revenue for expenditures in the educational, health and social services. Now it is proposed that the income tax power is to be removed and no monetary compensation is to be granted to the Province therefor.

Nova Scotia is the only province, we understand, that is in that situation and therefore we should receive in one form or another an amount to equalize our position and reimburse us for this prospective loss of revenue. Were such a personal income tax imposed at fifty per cent of the normal rate of the Dominion income tax we would have received yearly in this respect a sum in excess of \$600,000, which under present conditions would be doubtless increased to considerably over a million dollars per annum.

You will recall that while at the conference table at Ottawa I asked from what source Nova Scotia could get any additional revenue when the corporation and income tax powers were removed from its jurisdiction. You will likewise recall that no concrete suggestion was offered to answer that question. If we give up the power we now have to collect income tax what source can we rely on unless a grant in aid is given to meet our fiscal need?

Now with respect to fiscal need, our difficulty in stating an amount to cover this is due to the fact that we have not as yet ascertained the method of interpretation which you propose to give to this term or the basis upon which any fiscal need is to be determined. We have serious situations in certain municipalities of the Province which need adjustment and which owing to conditions not within their control are unable to meet their ordinary tax obligations. In respect of certain municipalities there are accumulated arrears of taxes due to the Provincial Government which we have been unable to collect totalling nearly a million dollars. This is undoubtedly a fiscal need that must be assumed by the Province.

But that is not the most serious feature for these counties will continue to be a burden and the Province must assume greater obligations on their account. The towns which will be recouped for their loss of income tax are the most prosperous in the Province. The poorer counties get nothing, which

accentuates our difficulties, and these are the ones which after all should receive the greater consideration. I wish to stress the fact that we are not taking advantage of the present occasion to correct this situation for it is a matter that must be dealt with no matter what the outcome of our financial relations with the Dominion Government is concerned.

While it is true that for the last year or two our revenues have been a little more buoyant owing to the profits on consumption sales, that is not a normal but an extraordinary condition. Our normal budgetary position over the last seventeen years show an annual average deficit of \$466,712.60; thirteen years with deficits of \$9,240,698.03 and four years with surpluses of \$1,306,582.12. If we take out of that calculation the revenues received from the sale of liquor totalling for the same period \$11,814,546.92 our deficits would be increased annually on the average for those years by \$494,973.35.

I would be obliged if you would obtain and have forwarded to me a detailed statement of the amounts paid by the Canadian National Railways to the various provinces and municipalities throughout Canada as shown in their published statement "Railway Tax Accruals" and totalling \$6,245,955.70 for the year 1940. (I understand the details will only be released on your order or that of the Minister of Transport). Some of these separate payments are based on actual assessed value of the properties and others are agreed amounts in lieu of the prevailing tax rate on such assessed value. Would the company officers indicate where such agreements have been made. This information is necessary to a proper consideration of the comparative effect on Nova Scotia of the proposed Clause 2A in the agreement.

I also enclose revised copies of Appendix A and Appendix B and have in accordance with your suggestion enclosed the names of the municipalities with the amounts received from income tax which it is proposed these several municipalities should abandon. These would appear, I take it, in Appendix DD and would be treated in the same way that you are treating the municipalities of New Brunswick.

I further enclose a memorandum presented by the City of Halifax in respect of its position. There are also matters of local taxation in relation to the City of Sydney which will require some consideration.

I wish to make it plain that we are anxious to deal fairly and equitably with this matter and have no desire to gain any unfair advantage, but feel, however, that we are in a different position from any other Province in view of the fact that we are the only Province which has not imposed an Income Tax. Therefore our case should be dealt with separate and apart from that of the other Provinces.

Yours very truly,

A. S. MACMILLAN

Hon. J. L. Ilsley, P.C., K.C., M.P.
Minister of Finance,
Ottawa, Canada.

COMMENTS ON AND SUGGESTED ALTERATIONS
TO DRAFT DOMINION-PROVINCIAL AGREEMENT
IN RE VACATING CERTAIN TAX FIELDS FOR
THE DURATION OF THE WAR.

The fourth paragraph of the preamble states that the Parliament of Canada has provided funds for certain payments. It may be that an inference could be drawn from this recital that the Province in signing this agreement consents to the action of the Parliament of Canada in discontinuing the additional subsidy paid annually under the terms of the White Commission. The recital should be so drafted as to avoid any such inference or omitted altogether.

Section 1 (a) defining Corporation Tax is vague and may result in differences of opinion between the Dominion and the Province. The Corporation Tax Act, 1939, of Nova Scotia, provides for the only income tax imposed by the Province. There is no personal income tax so that an income tax in Nova Scotia is part of the Corporation Tax according to the definition. Therefore, it is suggested that in the case of Nova Scotia, at any rate, it should be clearly stated that "Corporation Tax" means a tax imposed under The Corporations Tax Act, 1939.

Clause (a) re-drafted should read as follows:

(a) "Corporation Tax" means a tax, the imposing of which singles out for taxation or for discriminatory rates or burdens of taxation, either formally or in effect, corporations or any class or classes thereof or any individual corporation and which is imposed by the provisions of The Corporations Tax Act, 1939, but shall not include:

- (i) a bona fide and reasonable provincial license, registration, filing, or other fee for specific services or privileges; and
- (ii) a reasonable tax or license or other fee for specific rights, benefits or franchises granted by a municipality;

- (iii) any assessment under the Workmen's Compensation Act;
- (iv) a business tax imposed by a municipality based on floor space or on the rental value of property.

"It is agreed that the taxes, licenses, fees or permits imposed by the enactments enumerated in Appendix B shall be deemed not to be corporation taxes."

Clauses (i) and (ii) exempt "bona fide" and "reasonable" provincial fees and in the case of municipalities "reasonable" fees. Is there any reason for the distinction here drawn, as it may lead to different interpretations? It should not be necessary for "bona fides" to be questioned as between Governments.

If you place a ceiling of \$250.00 on the provincial license fee surely "bona fide" and its reasonableness must be left with the determining authority, in the case of Nova Scotia, the Governor in Council. Then again the word "reasonable" will have to be interpreted in one way under (i) and another under (ii), that is, what would be a reasonable license fee for a company to pay as such for registration, is not a reasonable fee to be paid to a municipality for a franchise.

Section 2.

In several places throughout the agreement the words occur "Province and its municipalities". "Province" is stated to be the Government of the Province of Nova Scotia. Municipalities are not the municipalities of the Government of the Province of Nova Scotia. Perhaps the words "its municipalities" wherever they appear should read "the municipalities of Nova Scotia."

If Clause 1 (a) is re-drafted as suggested the inconsistency of grouping income and corporation tax in this clause is removed. The matter of the proviso as to a limitation of \$250.00 per annum for Provincial licenses or registration fees may now be placed, if so desired, in clause 2 and the whole clause should read as follows:

2. "The Province undertakes:

- (a) to repeal or suspend, or to have repealed or suspended for the term of this agreement, the enactments

pursuant to which income and corporation taxes are levied and collected by the Province and the municipalities of Nova Scotia which enactments are enumerated in Appendix A, and any other enactments or law of the Province imposing an income tax or corporation tax; and

(b) to enact or have enacted such legislation as may be necessary to enable the Province to implement and carry out its part of this Agreement.

The Province further undertakes to amend the enactments enumerated in Appendix B which impose license or registration fees to provide that in no case shall the said license or fees exceed the amounts set forth in Appendix B as maximum fees."

Section 2 (a).

The Government of this Province protests strongly in respect of the proposed insertion in the agreement with Nova Scotia of Section 2 (a) suspending the payment of the amount to be paid to the Province in respect of the Canadian National Railway Company.

In so far as this amount represents provincial railway taxation there may be difficulty in sustaining the argument. But in so far as this represents an amount to be paid to the municipalities of Nova Scotia (and the Government of Canada itself has inserted a provision in the Privy Council Order upon which the Province felt it was obligated to pay a certain amount to the municipalities), it should be noted there is no suggestion that in Ontario, Manitoba, or other Provinces, there will be any suspension of the agreements between the railway authorities and the several municipalities or Provinces whereby the Canadian National Railway pay to these municipalities amounts levied in lieu of real estate or other municipal taxation. The Canadian National Railway and the Government of Canada recognized in 1925 there should no longer be a distinction drawn between railways constructed or acquired in Nova Scotia by the Crown represented by the Canadian Government, and railways constructed by private corporations in other Provinces of Canada, but whose capital stock was bought by the Crown represented by the Canadian Government.

Moreover, since the handing over of the Crown property in Nova Scotia to the Canadian National Railway Company there have been many changes and increases in mileage of track and in rolling stock, all of which were not bought by the Crown but bought by the Canadian National Railway Company, and taxable at least to this extent by the municipalities as is other property of the Canadian National Railway Company operated and used in other Provinces of Canada. The Government of Nova Scotia feels that it is being unfairly discriminated against in this matter, if such a clause is to remain in the agreement and feels that the Canadian National Railway should be required to pay to the Province, for its municipalities in lieu of taxation, such sum as may be agreed upon.

The Canadian National Railway itself may be prejudiced, if the agreements made in the Western Provinces were abrogated, for these agreements provide payment to the municipalities of sums at fixed rates, instead of sums based on assessments. That may not be universally true, because the Canadian National Railway property in the City of Toronto is taxed for its lands and buildings at the assessed rate applicable to other property, and yielded a tax in 1940 of \$457,648, and approximately the same amount in 1941, payable to the corporation of that City.

The like is true of Montreal where the Canadian National Railway Company paid to the corporation of that City sums estimated at \$734,636 in respect of real estate, \$100,000 as a business tax, and \$50,000 as water rates, making a total of \$884,636. The business tax is on the basis of the annual rent value which generally is 10% of the assessed value of real property for occupied buildings and 4% for vacant land.

The Halifax City Treasurer, under date of July 31st, 1941, advises that the assessment on the railway property at Halifax is \$4,766,000. Included in this amount is the net amount of \$1,452,400, the value of the hotel and station not assessed. There is an admitted assessment of \$202,800 on this property. In addition we have properties throughout the Province, both in the municipalities and towns, which are not taxed, although assessments

have been made thereon in some cases. For instance the City of Sydney Assessor valued the railway property there at \$2,311,474. In Truro they valued the property at \$585,000, in Stellarton and Dartmouth at \$500,000 each, in Bridgewater \$222,180, and in Yarmouth at \$250,000 to mention some of the larger items, making a total for the cities and towns of at least \$10,000,000.

The only rural municipality that has attempted to assess the railway property in any degree is that of Pictou, which shows a value of \$2,452,760, and now exempt. Supposing a fixed value were set for the railway properties in the municipalities of say \$5,000,000, this would give a valuation of over \$15,000,000. On an average rate of say 3% this would produce not a sum of \$91,000 now paid by the Canadian National Railway Company to the Provincial Government but a sum of \$450,000, for the municipalities alone, were these railway properties subject to taxation as they are in other municipalities in Canada. Instead of eliminating the amount of \$91,000 heretofore paid to Nova Scotia, for either itself or its municipalities, the sum should be increased greatly to bring Nova Scotia on a parity with other Provinces in these respects.

It is important in this connection to ascertain the amount of the various taxes paid by the Canadian National Railway Company to the Municipalities or Provinces in other parts of Canada other than the Maritime Provinces. This information is necessary for a proper consideration of Clause 2 (a).

In this matter the City of Halifax, through its solicitor, has submitted a Memorandum respecting the exemptions from taxation of the property occupied by Military, Naval and Air authorities, the property of the Canadian National Railway and property occupied by the National Harbours Board, which is enclosed.

It is, therefore, suggested that Clause 2 (a) should be amended by adding thereto the following:

"Provided, however, the Canadian National Railway Company may pay to the Province for the Municipalities of Nova Scotia in lieu of taxation on its real and personal property such sum as may be agreed upon."

Section 3

The proviso would read better were it to say "provided that any tax as levied on income by the said municipalities" instead of "any taxes levied by municipalities on income."

Section 4

"Fiscal period" should be "financial period". "Fiscal" only deals with the treasury of Governments, and the words in the first line "fiscal period" should be "financial period" and the word "fiscal" where it appears in such section should read "financial".

Section 5

Again the words "the Province and its municipalities" appear. The Province is being asked to sign this alone. It is submitted that the Province cannot sign an agreement binding the municipalities. The municipalities within their powers are independent of the "Province" except in so far as they may be controlled by the Municipal Commissioner. What the Province can do is to agree that the necessary legislation be passed whereby the Municipalities will be required to carry out these provisions and afford any necessary facilities for inspection, contemplated by section 19.

Section 8

Clause 1 defines security to cover any mortgage, bond, debenture, stock, share or other document constituting evidence of title in capital, etc. Section 2, Clause (c) prohibits the Province or any municipality from imposing tax on any such security or any other tax which would have the effect of evading the purpose of this agreement, that is, to reserve the income and corporation tax fields to the Dominion. It is submitted that this section is too wide in its application and that the Province or the municipality should have power to impose such local taxes on such securities as may be thought necessary.

Several Provinces impose a transfer tax which should remain under Provincial jurisdiction. I presume it is not intended to annul the Transfer Tax now imposed by the Province of Ontario. The Province of Nova Scotia should not be barred from imposing any such tax

if it so wishes, or from imposing any fee or additional fee for the registering of securities, say through the Registry of Deeds Office. It may be that the present definition of "security" would bar this.

Subsection 3 of Section 8 purports to give to the Province powers which have not been surrendered and which are within the provincial jurisdiction under The British North America Act. If the clause were worded so as not to seem to be conferring powers and was merely a declaratory statement it would be better. Apparently section 9 has been likewise drafted with this approach, namely that the Dominion is granting certain taxation rights. This is not so. The true picture is this: Under The British North America Act, Section 92, the Province obtained certain taxation powers which it now possesses. The Dominion Government has approached the Province requesting that it relinquish certain of these taxation powers, mainly income tax and corporation tax fields. This is all that the Province has under consideration. Therefore, it still retains whatever other powers of taxation it received under the Act of Union and consequently the statement that this agreement shall not be constituted as interfering with such rights is unnecessary.

Section 10

It is noted that the first sentence of this section is being amended for New Brunswick by the addition of the words "which sum includes the sum of \$. payable to the Province on account of the said municipalities computed as set out in Appendix DD".

The inclusion of the phrase regarding "payment to the Province on account of the municipalities" presumes that the amounts to be set out in Appendix DD will be added to the sum total otherwise arrived at and payable to the Province.

The paragraph is, even with this change, not at all satisfactory to the Province of Nova Scotia. The word "grant" in the sixth line in the phrase "additional grant awarded" is not correct. The White Commission (see Page 21 of the Report) stated "The additional annual subsidies which we recommend are as follows:

"to Nova Scotia \$1,300,000.00"

The word "grant", therefore, must be changed to "subsidy". There is nothing in the proposed section indicating that the Dominion intends to implement the report of the White Commission by a statutory enactment, and Nova Scotia requires some statement to that effect.

(Since writing the foregoing paragraph the Minister of Finance has assured the Premier that he will recommend to the Dominion Cabinet such a statutory enactment, this matter to be settled before agreement is signed.)

It is very important from Nova Scotia's standpoint that it be clearly set down that this subsidy of \$1,300,000, even if released for the duration of the war to the Dominion, belongs to the Province. We have issued bonds on the strength of this award and in the prospectuses issued at the time bonds were issued we have stated that this amount is an annual subsidy available to the Province; in other words not as of grace, but as of right. The White Commission state it thus, "We have dealt with the claims presented to us on the evidence of specific facts pertinent to the subject matter of our inquiry and of **long-continuing conditions peculiar to the Maritime Provinces and not common to the other Members of Confederation.**"

There is, therefore, very special reason why no other Member of Confederation could take exception to any clause in this paragraph which would continue to the Province this subsidy. To call it a "grant" or a "special grant" is harmful to our credit, as grants have a habit of being withdrawn, and in this case is being withdrawn unless our requests are met. We recognize the wartime needs of the Dominion Government and we are willing to yield all we have to forward that cause, but we cannot forego now or at any time amounts which have been awarded to us and which, if surrendered, would then place us back in the position we were in before these "long-continuing conditions peculiar to this Province" were righted.

The Western Provinces which received their additional awarded in 1930 had them confirmed by Statute and will continue to enjoy them notwithstanding they are, in common with us, yielding to the Dominion Government the corporation and income tax fields.

Due to war conditions during the next few years, the source of a considerable volume of provincial revenue may be necessarily curtailed, not alone by the action of the Province, but because of wartime conditions and other circumstances forced upon us. To replace any such loss by fiscal need, where that is shown, may temporarily alleviate any financial stringency but it will not over-ride the fact that in signing away our rights to this subsidy we have broken faith with bondholders to whom we have pledged our credit. The paragraph, therefore, as submitted and even as amended is not at all satisfactory, for the statement in the second sentence is not correct nor a statement of fact. Appendix D does not contain any reference to \$1,300,000 or the additional annual subsidy; and therefore "the amount payable to the Province" does not **include** \$1,300,000, and it cannot by words be **included** indirectly in the manner suggested.

In our view, therefore, the other sentences in Clause 10 should be re-drafted and if the section were phrased as follows we think it would meet our views, should be acceptable to the Dominion Government, and will be in accordance with the understanding we had when at Ottawa.

10. "The Dominion will pay to the Province each year during the term of the agreement the sum of \$. computed as set out in Appendix D less the deductions provided for in paragraph eleven, which sum includes the sum of \$. payable to the Province on account of the said municipalities computed as set out in Appendix DD.

"The Province agrees, subject to the provisions of section 10A, that the payment to it of \$1,300,000 additional annual subsidy, awarded upon the recommendation of the White Commission, may be suspended for the term of this agreement.

"The Dominion agrees that this amount of \$1,300,000 so awarded is an additional annual subsidy payable to the Province of Nova Scotia by the Dominion and agrees to implement the said recommendations by appropriate legislation of the Parliament of Canada at its next session and to take all proceedings necessary to have such legislation confirmed by the Parliament of the United Kingdom."

Section 10 A

"The Dominion will pay to the Province on the total amount of the additional subsidies so suspended at the end of each fiscal period interest at the rate of three per centum per annum. The first of such payments shall be made on the days and after the manner as provided in Section 14 of this agreement."

Section 15 (a)

The Government of Nova Scotia agrees to the deletion of this section.

Section 16, subsection (1)

We would suggest that the phrase between brackets in lines four, five and six would be clarified if it were to read as follows:

(being the total receipts from such tax—other than for license fees—reduced by the refunds lawfully made under the said Act).

Section 19

It may be that the Province at present has not the power to make all necessary records and documents of the municipalities available to the Dominion. The Municipal Commissioner no doubt has certain powers with respect to his own office but it is doubtful if his powers enable him to allow the Dominion to have the necessary facilities in this respect.

Appendix A

Several changes are necessary in the draft of the citations. These are submitted herewith.

Appendix B

Several changes are necessary in the draft of the citations. These are submitted herewith. The re-draft of section 2 of the agreement, as previously suggested, contemplates the placing in this proviso the maximum of the fees. Our suggestions are as follows:

Title of Enactment	Nature of Tax or Fee
THE DOMESTIC, DOMINION AND FOREIGN CORPORATIONS ACT	Registration (in no case to exceed \$250.00 per annum, save in the case of companies incorporated or to be incorporated which deal in, develop, or distribute mining, forests, fishing or agricultural resources of the Province, when the registration fee shall in no case exceed \$2,500 per annum.) These provisions not to apply to insurance companies.
THE GASOLINE LICENSING ACT	Fees imposed under Rule III of regulations. Licensing of retail gasoline distributors (in no case to exceed \$250.00 per annum) and of wholesale gasoline distributors (in no case to exceed \$2,500 per annum).
LIQUOR CONTROL ACT	Brewers' licenses and liquor sales. (License of brewers under Section 42 of Commission's Regulations in no case to exceed \$2,500 per annum.)

Under The Domestic, Dominion and Foreign Corporations Act the Province will lose, with the restricted ceiling of \$250.00 for registration on the 1940 basis, the amount of \$24,024. It is submitted that these restrictions should not apply to the registration of insurance companies which are carrying on business in Nova Scotia. As in other Provinces these companies are not required to be separately licensed but are not authorized to carry on business in Nova Scotia under the Registration Act unless and until they are licensed under the Insurance Act of Canada. The registration fee is, therefore, the equivalent of what in other Provinces is a license fee, and presumably permitted to continue in view of the unquestioned provincial jurisdiction in respect of insurance companies. This was contemplated originally as no change was indicated in the Dominion proposals to the Province in September 15th, 1941. (See Table 2 A).

Further, the Sirois Report recognized the interest that the Province has in the development of its natural resources and was prepared to recommend a return to the Province of 10% of the corporation tax imposed on such companies. This was estimated to total about \$200,000. That principle should still be operative in respect of the registration of such companies, and while we are prepared as a Province to co-operate it is felt that in the case of companies such as Dominion Coal, Mersey Paper, large fish processing companies it is unreasonable that these companies with large capitalization should pay a registration fee as low as a company incorporated with a capital of approximately \$1,500,000. If such a ceiling were permitted it would affect but forty-eight companies presently registered. There is only one company in the Province whose fee exceeds \$2,500, namely, the Dominion Steel and Coal Corporation Limited. When these fees were originally agreed upon there had been some discussion of raising the royalties on certain mining resources. Such legislation was not proceeded with in 1919, but instead there was adopted a larger registration fee under The Domestic Dominion and Foreign Corporations Act and a new enactment passed to increase the taxation of certain companies which had a paid-up Capital of \$500,000 or more. These Acts were subsequently consolidated in what are now known as The Domestic, Dominion and Foreign Corporations Act and The Corporations Tax Act, 1939 respectively.

Gasoline Licensing Act

It has been suggested in connection with the Gasoline Licensing Act that certain Provinces impose fairly heavy license fees on gasoline wholesalers and refiners and the levies are more in the nature of taxes than for regulatory purposes. The object of the taxation under the Gasoline Licensing Act in Nova Scotia is to provide the cost of the administration of this Act which is under the jurisdiction of the Public Utilities Board. If a ceiling of \$250.00 is placed on these companies the Province will not only lose revenue now received for this purpose, but the administration of the Gasoline Licensing Act will be a charge on the general ratepayers of the Province to the

extent of about \$11,000. This may be avoided, on the 1940 basis, by providing a ceiling of \$2,500 for wholesale distributors and produce approximately sufficient revenue to handle the administration of this Act, though there would still be an actual loss of revenue of \$11,250. As this fee is in the nature of a license for administrative purposes it should not be regarded as taxation.

The Liquor Control Act

As you will note we have changed the phraseology from license and tax on liquor sales" to "brewers' licenses and liquor sales". The Province of Nova Scotia imposes no tax on liquor sales, but through a Board the Government administers and controls the sale of liquor. The Liquor Control Board, under its Regulations, say to the brewers that they are to be licensed to carry on business with them and to pay a license fee. If this be reduced to \$250.00 it will be a ridiculous fee for these large brewery corporations to pay.

We are suggesting that the ceiling, as in other cases, be limited to \$2,500. In Nova Scotia there is no municipal licensing of brewers or liquor venders as in some other Provinces and hence a provincial license in reality covers not only the provincial but the municipal field. The taxation system under The Municipal Act in Ontario is presumably not being interfered with under the Ontario agreement. For instance, in respect of brewers in Ontario, the Municipal Act provides for $1\frac{1}{2}\%$ taxation on 150% of the value of the premises occupied by brewers, being a taxation on real estate. This is a recognition of the fact, generally accepted, that brewers should pay on a higher scale for their privileges. In a sense they enjoy a "franchise" and have always been licensed and restricted. No change is being proposed to legislation in Ontario, though it is suggested to cut off or greatly reduce brewers' license fees in Nova Scotia. This is hardly equitable, to say the least.

If the agreement is signed without the alterations suggested in the foregoing paragraphs there will be a Net Provincial Loss in Revenue for the next fiscal year of \$291,277, as per attached statement. The Net Loss is, however, based on the 1940 revenue for the respective

services mentioned. This loss will be considerably increased if we consider the prospective revenue for 1941 and succeeding years and no change were to be made in the present financial set-up as between the Dominion and the Province.

The only way that this loss can be reduced is by provision in the agreement for certain amendments to the Acts mentioned in Appendix B. If these suggestions are adopted it will mean a reduction of that loss, in the case of the Province, by \$58,524.

If provision is made in Appendix DD for payment to the municipalities of their loss, including the Cities of Halifax and of Sydney, there will be a further reduction in the loss of \$132,519 all payable to the municipalities. The municipalities, particularly those of Halifax and of Sydney, require however to impose additional taxes not based on income to meet in part the increased expenditures which they have been called upon to make and which ordinarily would have been met out of the natural expansion in income revenue.

The City of Halifax has submitted its memorandum outlining proposals for revising its existing taxation provisions necessary to distribute the tax burden equitably.

The City of Sydney in losing its income tax is placed in a difficult position inasmuch as there are now 900 names on the roll for income tax assessment only, covering an assessment of \$340,000. As these persons are resident in tax exempt property of the Steel and Coal Company they will escape taxation, and if over sixty years of age, not even liable for the poll tax of \$11.00. To meet this situation it is suggested that revision should be made in the assessment of real and personal property of the Steel and Coal Company which was fixed at a nominal amount of \$3,000,000 by Statute.

In respect of our municipalities, generally, the agreement will deal favourably with some Provinces and afford relief to their taxpayers, while denying that relief to Nova Scotia. In the comparative Statistics of Public Finance, Tables 2 and 3 (Dominion-Provincial Conference) the contrast between New Brunswick and Nova Scotia is strikingly apparent. New Brunswick's municipalities taxed

their ratepayers in 1940 \$6,800,000 of which \$1,000,000 was from income and the balance from assessment on real and personal property. In Nova Scotia the total municipal revenue was \$9,490,000 of which \$62,000 is stated to be from income and \$9,428,000 on real and personal estate. In New Brunswick the municipal tax burden is lifted by \$1,000,000 while in Nova Scotia property owners must continue to bear practically the whole of the impost without any or very little contribution in lieu of income tax or of the right to tax income which they are now required to forego.

If the suggestions in our memorandum are agreed to the prospective deficit of \$100,000 (as compared with 1940) may be met in other ways. In addition to this actual loss of \$100,000 additional revenue is required to meet the expansion in the social services, including education. To meet these we had relied until the agreement was proposed on having a Provincial Income Tax. That field is to be barred to us. It will be recalled that the Sirois Report stated on Page 90, Book II, that the Province of Nova Scotia should receive \$600,000 as the amount necessary yearly to put its educational and social services on an approximate equality with other Provinces of Canada. We are forced therefore to depend on a grant for this fiscal need that is pressing hard upon the Government for immediate attention.

We are also receiving considerable revenue from the profits on the consumption of liquor. This is an uncertain means of revenue and may at any time be sharply curtailed. The Provinces, accepting Option A, are receiving dollar for dollar of the revenue which they are yielding from corporation and income taxes, and in addition they are being allowed to retain their subsidies. If we retained our subsidy and were able to use Option A, the financial position would be somewhat improved. We, however, are called upon to make a distinct sacrifice and must needs diminish rather than increase our expenditures in the services which according to the Sirois Report are now behind the general average for Canada. We would not require to ask for a fiscal need subsidy or for any amendments to the agreement if, retaining our subsidy, we were placed in the same position as the Option A Provinces.

However, there are certain aspects of the agreement with Nova Scotia (and with the Maritimes) which are not common to the rest of Canada and provision, therefore, could be made for these amendments without in any way altering the situation so far as the other Provinces, and particularly Option A Provinces, are concerned.

(a) The Province suggests that as this \$1,300,000 belongs to it the Dominion, while withholding the same, might reasonably be expected to pay interest thereon as if the same were left on deposit at Ottawa as was the debt allowance amount of \$1,055,416.12 now in the Federal Treasury drawing 5% interest. The current rate being 3%, this would yield..... \$49,000.00

Is there any reason why, when only four Provinces at the most are concerned, an arbitrary figure of \$490,000 should be taken as a deduction in respect of Succession Duties? It is the only item where an arbitrary figure is used. The amount necessary to service the net debt charges is determined by reference to the net expenditures actually made by the Province in the year ending November 1940 and which net expenditures will of necessity continue to be made from year to year. But the amount to be deducted as Succession Duties after the year 1940 has no basis in reality, not being related to the amount of revenue actually received from this source.

Thus in determining the amount to be paid by the Dominion, two conflicting principles are followed, the first bases the determination of net debt service on actuality, while the second bases the determination of Succession Duty on artificiality.

It is submitted that this method of ascertaining the amount payable for servicing the debt should be amended by adding a provision whereby the amount to be deducted as Succession Duty might be adjusted so that the actual amount received by the Province would be deducted.

(b) Option B provides, in the case of certain Provinces, and there are only four of them, that there shall be a deduction from the amount payable to the Province to service the Net Debt, of the total collections of Succession Duties on the basis of the revenue for 1940. So far as Nova Scotia is concerned 1940 happened to be a fairly good year, far above the

average, for Succession Duty levies, and the total amount to be so deducted is in the vicinity of \$490,000. In fact, the Province is collecting and bears the total cost of collecting that Succession Duty. The Dominion proposes to allow to the Province 10% in any balances on the Corporation and Income Tax that may be collected after the 30th of November of this year. On the same basis, therefore, it would be only just that the Province should be also allowed 10% of this amount of \$490,000 to assist in bearing the cost of collection of our Succession Duty. This would total\$49,000.00

(c) The amount of the Net Debt service payment to the Province is based on the actual cash results for the fiscal year ended November 30th, 1940. The Province conducts its accounting on the accrual system and on this account we are forced to bear the loss of \$6,783, the Net Debt charges on the accrual basis being \$3,081,786.80, as compared with the amount of \$3,075,003.20, shown in Appendix D. This Net Debt charge, however, does not represent the actual Net Charge on the debt outstanding at the end of the fiscal year of 1940, as reflected by the yearly rise of the debt service in the accruing budget. Owing to the state of the money market and due to war conditions the Province was not able to fund its capital commitments as early as it had expected. If all its capital commitments which were actually made and capitalized in the fiscal year had been completed at the time most opportune for the Province, regard being had to the condition of the money market, the interest charges would have been increased in the fiscal year of the Province ending November 30th, 1940 by an amount of approximately \$83,000, these figures being ascertained by the Dominion Auditors. Equitably, therefore, the Province is entitled to this additional amount and if Appendix D cannot be amended to permit of this increase then it is an amount which is properly payable to the Province by a grant for a fiscal need already created before any suggestion of a transfer to the Dominion of certain sources of revenue had been made.\$ 83,000.00

(d) Owing to increased cost of living due to war conditions the Province has been called upon to pay to employees a cost of living bonus. We would not suggest including such an amount in any fiscal need claim were it not for the fact that we have had to yield a subsidy of \$1,300,000 which other Provinces, on the basis of the 1930 awards, have not been called upon to yield. This will total for the year 1941-1942 approximately\$225,000.00

(e) Owing to the war the Province has been called upon to increase greatly its local health and hospitalization expenditures. The cost of this increase alone is approximately \$60,000. In ordinary times certain expenditures of a more or less permanent character have been charged to capital account. Owing to the fact that it is difficult, if not impossible, to issue bonds for other than refunding purposes, these capital expenditures will be required to be met out of ordinary revenue. Apart altogether from ordinary expenditures in this classification there was expended in 1940 amounts totalling on the accrual basis \$270,329.60

Corresponding items for such service will require to be met out of the current revenue in 1942 as they are being met out of the current revenue in 1941.

(f) The revenues of the Province during the term of this agreement are in certain respects curtailed in the fields in which expanding business would yield returns in an ever increasing proportion. In Nova Scotia a personal income tax was held in reserve to meet the expenditures the Province is being called upon to make in its educational and social services. Such a tax would have produced in 1940 approximately \$600,000. The other Provinces which imposed such an income tax are being compensated for their loss by the return under Option A of the proceeds of their personal income taxes. It is submitted that Nova Scotia is not receiving any equivalent for the loss of its taxing power and in view of the urgent demands for improved educational and social services (admitted by the Sirois Report to be below the standard of the average for Canada) should therefore receive by way of fiscal need an additional amount of \$600,000.00

A total altogether of \$1,276,329.60

It should further be noted that the grant to service net debt charges which the Dominion is agreeing to pay to the Province in return for it vacating the personal income tax and corporation tax fields has been fixed at \$2,585,308.72 as appears in Appendix D to this agreement, being on a net debt charge of \$3,075,003.20 less \$489,694.72 Succession Duty receipts. This amount is based on a total funded debt of \$106,435,000. The cost of servicing this debt, it is submitted, shows very careful financing over the period of time during which this debt has been incurred, and this factor should be recognized in determining

what amount the Province is entitled to, if the option of servicing the debt is chosen.

This should be of added importance when the finances of other Provinces, who will probably accept this option, are considered. If the Dominion should provide for larger payments to such other Provinces whose funded debt reveals that there has not been the same care in financing as is the case in this Province, it would mean that the Dominion by such action intends to penalize safe financing.

It has come to the attention of the Province that in the case of at least one Province this is exactly what has happened. In such Province the Dominion proposes to give a grant of \$3,260,051 or \$675,000 more than Nova Scotia is receiving; this amount is based on a funded debt of \$104,029,000 or \$2,400,000 less than the Public Debt of Nova Scotia. This is due of course to the payment of a higher interest rate as well as to foreign exchange on loans floated in the United States of America, a policy which this Province, by its financial soundness, has been able to avoid.

Halifax, N. S.,

2nd December, 1941.

